



THE COMMONWEALTH OF MASSACHUSETTS
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December 5, 2003

Mary L. Cottrell, Secretary
Massachusetts Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Fitchburg Gas and Electric Light Company, PGM Plastics, Inc., Special Contract, D.T.E. EC-03-3

Dear Secretary Cottrell:

I. INTRODUCTION

On October 31, 2003, Fitchburg Gas and Electric Light Company ("FG&E" or the "Company") filed a Special Contract for Electric Delivery Service ("Special Contract") with the Department of Telecommunications and Energy ("Department") seeking approval of its proposal to supply PGM Plastics, Inc. ("PGM") with electric delivery service. On November 28, 2003, the Department issued an Order of Notice requesting comments on the Company's proposed Special Contract with PGM.¹

According to the Company's filing, PGM operates a plastic manufacturing facility in the City of Fitchburg and employs approximately 45 city residents. PGM seeks to expand its facility to meet substantial increases in its business. In connection with the planned expansion of its manufacturing facility, PGM seeks to reduce or otherwise contain its energy costs, which are substantial. FG&E proposes to supply electric power to PGM at a discounted rate. The Company contends it must provide a discount to PGM in order to retain PGM in its service territory and keep PGM from moving its operations to a competitor's neighboring service territory where

¹ The Attorney General's comments do not address all issues raised by the Company's filing and/or Special Contract. Accordingly, the lack of comment on other matters contained in the filing and/or Special Contract should not be construed or otherwise interpreted as the Attorney General's agreement, assent, or acquiescence to those matters.

the rates are lower. Although the Company describes the filing as an economic development rate (“EDR”), it has not filed an EDR tariff or proposed that the discount be available to customers other than PGM that might be eligible for an EDR.

II. ARGUMENT

A. The Department Should Reject The Contract As Proposed Because It Is Contrary To Precedent.

The Department has previously addressed whether and on what terms distribution companies may enter contracts offering discounts to customers. *See Standard of Review For Electric Contracts*, D.P.U./D.T.E.96-39-A (1998). Distribution companies must show that (1) the discounted rate exceeds the company’s marginal costs of distribution; (2) a discount from one customer is not recoverable from remaining ratepayers; (3) the electricity contract is consistent with the law and the Department’s policies and precedent; (4) the formulas and rates applicable under the contract are explicit, or, at a minimum, readily derived from other information in the contract; and (5) the contract indicates that the purchaser will be subject to a non-bypassable transition charge. *Id.*

The Department should reject the Company’s proposed Special Contract because it does not meet these standards. The Company has not shown that the proposed distribution charges are above its marginal costs of distribution. To the contrary, in comparing the proposed distribution rates with long run marginal costs, the Company admits that it has deviated from the approved methodology of calculating marginal costs by removing various fixed costs (carrying costs, working capital, supplies, prepayments) from its computations. The Company also has failed to show or even promise that it will not recover Special Contract discounted revenues from other customers.

B. The Department Should Address PGM’s Rate Concerns By Reducing Rates Without Discrimination.

The proposed Special Contract would discriminate by providing a discount to PGM that is not available to other customers. If the Company is truly concerned about retaining PGM as a customer, it could address that concern in a non-discriminatory fashion by lowering rates for all customers, including PGM, without an individualized preferential contract. For example, if the Company reduced either the Seabrook Amortization Surcharge (“SAS”) or its transition charge, or a combination of both, FG&E could achieve the same savings for PGM while also benefitting its other customers.

The Department should reduce rates for all FG&E customers rather than approving the Company’s proposed discriminatory Special Contract for just one customer. By reducing rates, the Department could also grant relief as the Attorney General proposed in his pending April 30, 2003, Motion for an Investigation and Public Hearing into Temporary Rate Relief for Utility

Customers.

Respectfully submitted,

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